

PARIS CONFERENCE FOR LONG-TERM VALUE & ECONOMIC STABILITY

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*Long Term Investments*  
*The European Answer to the Crisis*

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**ADDRESS BY**

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Distinguished Secretary General of the OECD,  
Honourable Ministers,  
Honourable Ambassadors,  
Ladies and Gentlemen,

On behalf of my friends Franco Bassanini, Philippe Maystadt and Ulrich Schroeder, co-founders of the Long Term Investors Club, and on my own behalf, I am happy to welcome you to **this first Paris Conference to promote long-term value and economic stability**. This conference has been organised in partnership with the OECD, and I would like to express a particular welcome to its Secretary General Angel Gurría, who has most kindly agreed to open our proceedings.

As the first major event organised by the Long Term Investors Club, **this conference is remarkable, both in terms of the diversity of actors it brings together and the theme it tackles, at a crucial moment for the global economy**.

- It brings together for the first time families of investors – pension funds, institutional investors, sovereign wealth funds and development banks – that neither know each other well nor cooperate to any great extent, but that nonetheless share common characteristics.
- Again for the first time, the theme of long-term investment will be discussed by financial institutions, experts and representatives of government and business, at a time when a new global economic and financial paradigm is taking shape.

Often invoked but rarely defined, the importance of long-term investment is attracting renewed interest on the part of prestigious economists in the current context of the reform of capitalism. Many of them will be participating in our work

today. I would like to thank them for accepting our invitation, particularly those who crossed the Atlantic to be with us: Professors Edmund Phelps, Nobel Prize for Economics, Olivier Blanchard, IMF Chief Economist, and Nouriel Roubini of New York University.

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**In the light of the crisis, the question of the role of long-term investment has come even more sharply into focus, for two reasons:**

**1- First of all because the action of long-term investors in stabilising the markets is beginning to be acknowledged**

I can see two reasons why the action of long-term investors can in part counterbalance short-termist behaviours, the excesses of which are central to the dynamics of the crisis:

- First, given the structure of their balance sheets<sup>1</sup>, long-term investors have the capacity to smooth their resources over the medium and long term. They are able to retain assets in their portfolios in times of crisis and in this way play a counter-cyclical role in the financial markets;
- Secondly, because by the same token, they have the capacity to spread risks between generations. Without long-term investors, each age cohort would bear market risk throughout its lifetime. This is a fundamental strength in the framework of management of pension schemes, for instance.

**2- This capacity for long-term projection also makes it possible to finance innovation and the major projects essential for creating new jobs.**

Long-term investors have the capacity to play a greater role in corporate governance and can support management in implementing projects that create real value. I am thinking, for instance, of R&D investment, which only bears fruit several years later.

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<sup>1</sup> Their liabilities are not payable in the short or medium term

More generally, this class of investors can finance long-term projects that do not generate immediate revenues. For this reason, they are called on to play a key role in crisis recovery strategies, over and above the economic recovery plans to which they have already largely contributed. The role they will play here is even more important in that private debt has shown its limits and that most States have almost exhausted their room for manoeuvre in terms of public deficits.

But for these mechanisms to work, there must be a good match **between the financing capacities of long-term investors and real long-term investment projects.**

This is not the case today. There is a sizeable gap, accentuated over the last few years, between the funds managed by that class of investors presenting long term characteristics – close to 30,000 billion euros – and the real value of long-term investment projects worldwide.

This gap can be explained in part by an accumulation of short-termist biases. I am thinking, in particular, of taxation, remuneration policies, market practices and trends in pension schemes, together with certain prudential and accounting standards stemming from the mark-to-market principle.

**"How can we encourage so-called "long-term" investors to behave as such?" – this is one of the fundamental questions we must answer in the course of our discussions.**

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The dialogue we would like to initiate today between long-term investors, regulators, economists, senior government officials and business leaders **arrives at a particularly opportune moment.**

With short termism and the disconnection between finance and the real economy held responsible for the crisis, **the virtues of long-term investment are a constant theme in all the pronouncements issued around recovery and reform of the global economic system:**

- The conclusions of the London G20 summit refer frequently to the concept of the long term;
- Just a few days ago, The President of the Republic and the Chancellor of Germany Angela Merkel emphasized in a joint editorial the vital need to promote a new world economic model based on "*a responsible market economy, which privileges (...) the long-term investor*". To this end, they called for a reform of accounting standards;
- Lastly, President Obama has made the concept of the long term a priority plank of his communication strategy with the economic and financial community.

Furthermore, world leaders have already opened up two avenues for action, which we believe are essential:

- reform of the prudential regime, and more particularly of accounting standards;
- work on a charter for sustainable economic activity, which should craft guidelines for defining a new global economic and financial paradigm.

I therefore express the hope that our discussions will contribute to preparations for the G8 summit in L'Aquila (Italy) in July, the G20 summit in Pittsburgh in September - which should deliver an opinion on the charter for sustainable economic activity - and for later meetings, so as to correct the biases responsible for the gulf between real long-term investment projects and the capacity of long-term investors.

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Leaving aside the definition of a favourable international framework, **we must encourage cooperation between the different actors** in long-term investment, international cooperation that should promote our common identity, enable us to share best practices and open the way to new operational partnerships between long-term investors.

**Our societies are confronted with challenges that transcend national borders**, calling for solutions that for the most part require long-term action and pooling of resources:

- Faced with a crisis that is destroying millions of jobs, the issue of **regeneration of the industrial fabric** has resurfaced – it demands support for training, innovation and entrepreneurs themselves;
- According to the economist Nicholas Stern, **the transition to a low-carbon economy** requires investment equivalent to 2% of global GDP, but holds out the prospect of unprecedented growth and job creation;
- **Demographic growth** is set to increase world population to 9 billion inhabitants by 2045, three-quarters of whom will live in urban areas – it calls for construction of transport and sanitation infrastructure and housing, etc.;
- **Pressure on energy resources** and the challenges of securing supply require massive investment in energy-efficiency projects, particularly for buildings, and in renewable energies.

Each of these different risks and challenges constitutes an opportunity for cooperation between long-term investors.

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This is the spirit in which I initiated **creation of the Long Term Investors Club**, which took concrete form on 20 April this year, at the prompting of the Caisse des Dépôts Group, the Cassa Depositi e Prestiti, the KfW Bankengruppe and the EIB. These four long-term financial institutions, among the most solid in the world, together have total assets of 1300 billion euros, or 1900 billion dollars.

This new cooperative venture is nourished by some first projects, such as the InfraMed Fund for the Mediterranean region and the 2020 European Fund for Energy, Climate Change and Infrastructure ("Marguerite Fund").

However, **the Club does not intend to confine itself to Europe – we are keen to open up to the reality of a multipolar world, and, in particular, to the emerging countries.**

To this end, we have initiated a process of outreach towards other major world regions, such as North Africa, the Middle East, North America, Russia and Asia. And I am happy to announce that several big long-term financial institutions have already expressed a keen interest in participating in our initiative:

- The Caisse de Dépôt et de Gestion (CDG) of Morocco – I take this opportunity to welcome here today its new Director General, Mr. Anass Alami;
- The Development Bank of the Federation of Russia – and I take this opportunity to welcome its Chairman, Mr. Dimitriev;
- Mubadala, a leading Abu Dhabi sovereign fund;
- The Investment Corporation of Dubaï (ICD) ;
- The Caisse de dépôt et placement du Québec (CDPQ) ;
- The leading Canadian pension fund, Wording Omers;
- The first Swedish pension fund, Första AP-fonden (or Ap1).

We may also very soon welcome to our ranks the China Development Bank.

**This first enlargement should increase the Long term Investors Club's weight in global finance to 3000 billion dollars,** clearly demonstrating the validity of our approach.

We would also like to go further in this process by opening up **to institutions that signed up to the Santiago Principles**, several of which are represented in this room today.

Here, I would like to make a solemn declaration: our two initiatives are complementary and we must offer each other mutual support. This is why I express the wish that the Long Term Investors Club and the Santiago Forum will establish close and fruitful cooperation in the future.

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Ladies and Gentlemen, this first Paris Conference marks a step in a long and exacting process that should lead us towards a recovery that stimulates growth, but also jobs and development serving the needs of human beings and the environment. I express the wish that it will open up the way to new forms of cooperation and that it will play a positive role in the global political agenda, another highly original initiative, in favour of long-term investment.

Thank you.